APPENDIX.

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IMMUNITY AGREEMENT

THIS AGREEMENT is effective the 1st day of September, 1962 by and between WELL SURVEYS, INC. of Tulsa, Oklahoma, a corporation of Delaware, hereinafter called "WSI", and CARDINAL SURVEYS COMPANY, a corporation of Texas, hereinafter called "Company".

I.

Recitals and Definitions

1.01 WSI is possessed of certain patents and rights with respect to patents in the Field of Radioactivity Well Surveying, and Company desires the right to conduct Radioactivity Well Surveying operations for hire with immunity from liability for infringement of the "Patent Rights of WSI", as hereinafter defined.

1.02 The term "Radioactivity Well Surveying", as used herein, shall mean logging or surveying bore holes by the detection along a bore hole of neutral particles, charged particles or electromagnetc radiations coming either from the nucleus or from the outer particles of the atom or any other radioactive effects of radioactive radiations or combinations thereof emanating from the material within or traversed by the bore hole, whether these emanations represent a natural condition or result from irradiating the formation with neutral particles, charged particles or electromagnetic radiations or any combination of them or are the result of a treatment of the formation or the bore hole capable of giving rise to such emanations, and by the utilization of these received

radiations or particles to derive information concerning the nature or contents of the formation or the bore hole. The term "electromagnetic radiations" as used herein shall mean radiations having frequencies greater than that of ultraviolet light.

1.03 The term "Field of Radioactivity Well Surveying" as used herein shall mean all methods and apparatus used for Radioactivity Well Surveying.

1.04 The term "Radioactivity Survey" as used herein shall mean and include any logging and surveying operation in the Field of Radioactivity Well Surveying.

1.05 The term "Radioactivity Tracer Logging Service" shall mean either of the following: (a) a well logging service in which a radioactive tracer material is introduced into a single well (wherein a Radioactivity Survey may or may not have been previously conducted) and in which one or more Radioactivity Surveys are subsequently conducted in said well to obtain information regarding the effect of said tracer material; or (b) a well logging service wherein a radioactive tracer material is introduced into a control well (wherein a Radioactivity Survey may or may not have been previously conducted) and in which one or more Radioactivity Surveys are conducted in one or more adjacent wells for the purpose of obtaining information regarding transmission of said tracer material from said control well to said adjacent wells.

1.06 The term "Patent Rights of WSI" as used herein shall mean any and all United States patents owned by WSI to the

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extent that such patents claim inventions disclosed in applications filed in the United States Patent Office on or prior to January 1, 1961, and to the extent that such patents would be infringed by a method or apparatus in the Field of Radioactivity Well Surveying.

II.

Grants

2.01 WSI, warranting that it has the right to do so, hereby grants to Company, upon the terms and conditions hereinafter stated, a non-exclusive, non-tranferable (except as hereinafter specified) immunity from any claim, suit or liability for infringement of Patent Rights of WSI arising from Radioactivity Well Surveying conducted by Company for others for hire during the term of this Agreement. Experimentation by Company in the Field of Radioactivity Well Surveying of a purely research or development nature without consideration of any kind flowing to Company from another shall be subject to immunity hereunder but shall not give rise to a claim for royalty.

2.02 Company shall have the right to extend to each of its customers with each Radioactivity Well Surveying operation conducted by Company the immunities granted under Section 2.01 under Patent Rights of WSI, such immunities being specifically restricted to the specific survey upon which royalty is paid under the provisions of Section 3.02.

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2.03 Since the Radioactivity Well Surveying described in Section 2.01 requires the use of instruments, the immunities therein granted shall include the right in Company to make instruments for its own use and

may be extended by Company to instrument manufacturers, provided Company shall advise WSI by notice in writing of any such extension, including the name and address of each instrument manufacturer to which extension has been made, and provided any such extension shall be specifically restricted to such instruments made for and actually used by Company pursuant to the terms and conditions of this Agreement and shall cease to exist if this Agreement is terminated or if the instrument is transferred to a stranger of this Agreement except in the event such transferee has a license or immunity under Patent Rights of WSI to use such instrument, in which event the instrument shall be considered as having been made for such transferee.

III.

Payments

3.01 Company agrees to pay WSI as royalty on each Radioactivity Survey conducted by Company during the

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term of this Agreement an amount equal to five per cent (5%) of gross charge (exclusive of mileage) made for the survey so conducted or a sum of ten dollars ($10.00), whichever is the greater.

3.02 In the event that a service involving Radioactivity Well Surveying is one of a combination of several different services conducted by Company for the same customer on the same setup, at the same well and for a single price which is different from the total of the individual charges customarily made by Company for such services if performed separately, the

"gross charge" for determining the royalty payable on such service involving Radioactivity Well Surveying shall be that proportion of the single price charged for said combined service which the individual charge customarily made by Company for the particular service involving Radioactivity Well Surveying is of the total of the individual charges made by Company for each of such services if performed separately.

3.03 For the purposes of Section 3.02, a Radioactivity Tracer Logging Service shall be construed as "on the same setup" and "at the same well" even though successive setups or a plurality of wells are actually employed in rendering such a service.

3.04 On or before the 20th day of each January, April, July and October, Company shall furnish WSI with a report in writing setting forth the following information pertaining to each Radioactivity Well Survey performed by Company during the

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preceding calendar quarter:

(a) Customer;

(b) Invoice Number;

(c) Date of Invoice;

(d) Amount on which royalty is payable;

and a summary including:

(e) Total, for all well surveys, of amounts specified in Item (d) above;

(f) Total royalty payable (Item (e) multiplied by royalty rate).

Each such statement shall be accompanied with payment for the full amount of the total royalty payable for the quarter in question.

3.05 Company shall fix charges for surveying operations conducted hereunder in its sole discretion but agrees that royalty payable hereunder shall not be less than (a) the amount which would be payable provided such charges were commensurate with the cost and value of said operations, or (b) the amount which would be payable upon its published charges for such services, whichever is greater.

3.06 Company shall keep records adequate to verify the reports and payments made pursuant to Section 3.04, and WSI shall have access during regular business hours to Company's records to the extent and only to the extent necessary to verify said reports and payments.

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IV.

Termination

4.01 If Company shall neglect or fail to render reports and make payments as and when due hereunder or shall otherwise be in default of any obligation under this Agreement, WSI shall have the right to give written notice thereof to Company, and if within sixty (60) days from and after the date of such notice Company shall not have cured such default, then WSI may, at its option, cause this Agreement to terminate forthwith by giving written notice to that effect to Company.

4.02 Company may terminate this Agreement as of the fifth anniversary date hereof or as of any successive anniversary date thereafter by giving WSI written notice of cancellation at least sixty (60) days prior to the anniversary date on which cancellation is to take effect.

4.03 Unless otherwise terminated pursuant to the provisions hereof, this Agreement shall continue in full force and effect until the expiration date of the last patent to expire under which Company is granted immunity by this Agreement.

4.04 Termination of this Agreement shall not affect the obligations of Company to make any payments which shall have accrued up to the date of such termination, and the fact that WSI shall not have terminated this Agreement pursuant to Section 4.01 because of one or more defaults by Company shall not prejudice the right of WSI to effect termination for a continuing or subsequent default.

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V.

Miscellaneous

5.01 Company shall not be estopped to contest the validity of any patent included in Patent Rights of WSI.

5.02 This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto, and Company may assign the rights and privileges herein granted to the successors in ownership of substantially all of its Radioactivity Well Surveying business, provided any such successors shall subscribe to the terms and conditions herein, but this Agreement shall not be otherwise assignable by Company without the written consent of WSI.

5.03 The address of the parties hereto, for the purposes of notices, payments and other communication provided for herein, shall be as follows:

WELL SURVEYS, INC.
P. O. Box 1799
Houston 1, Texas

CARDINAL SURVEYS COMPANY
P. O. Box 2049
Odessa, Texas

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IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their proper officers duly authorized and their corporate seals to be affixed as of the date first named herein.

WELL SURVEYS, INC.
By Jay G. Beaver
Vice President

ATTEST:
/s/
Secretary
(Seal)

CARDINAL SURVEYS COMPANY
By /s/
President

ATTEST:
/s/
~~Secretary~~ Ass't Secretary

RECENT DEVELOPMENTS IN PATENT MISUSE AND ANTITRUST.

Rufus S. Day, Jr.

1968
PATENT LAW ANNUAL
Continuing Legal Education Center
of
The Southwestern Legal Foundation
Dallas, Texas

Royalties Under Expired Patents.

In practice, the problem of royalties under expired patents is often closely related to that of package licensing, and many of the leading decisions have been relevant to both issues.

The doctrine that it is a patent misuse to extend the payment of royalty beyond the expiration of a patent is of recent origin. It is not even mentioned in the *Attorney General's Report* of 1955.[20] Indeed, as late as 1958, Ridsdale Ellis,[21] was able to entitle Section 10 of his treatise: "Agreement to Pay Royalties after the Patent Has Expired Is Valid and Binding," and there is no question that the Second Circuit cases he cited supported his conclusion.

However, a few years before, the Supreme Court had decided *Scott Paper Co. v. Marcalus.*[22] As you will recall, that case held that the assignor of a patent was not estopped by his assignment from defending a suit for infringement of the assigned patent, on the

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[20]N. 7 *supra.*

[21]Ellis, *Patent Licenses* (3d ed. 1958).

[22]326 U.S. 242 (1945).

ground that the alleged infringing device was that of a prior art patent. In the course of its opinion, the Supreme Court restated very strongly the policy of the patent laws that on expiration of the patent, the invention is dedicated to the public. Specifically, it stated that "the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of the former patent monopoly."[23]

In line with this approach, although it did not cite *Scott*, the Third Circuit, in its decision in 1959, in *Shatterproof*, after holding that Securit had misused its patents by mandatory package licensing, made the following further statement:

> "We conclude also, and quite apart from all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue 'in full force and effect to the expiration of the last to expire of any' of Securit's patents set out in 'Schedule A' constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of the patent most recently granted to Securit."[24]

The court further indicated that a clause permitting the licensee to terminate at any time after one year from date did not help the situation, because it demanded "renunciation of all patents, whether wanted or unwanted under the license."[25] This was true under the facts of *Shatterproof*, because, as you will recall, the

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[23] *Id.* at 256.

[24] 268 F.2d at 777.

[25] *Ibid.*

licensor's policy was one of mandatory package licensing.

Three years later, the Third Circuit had the opportunity to set forth fully the theoretical basis of its brief statement in *Shatterproof*. *Ar-Tik Systems, Inc. v. Diary Queen*,[26] was an action by the licensor of a single patent to enforce an agreement to continue payment of royalties after expiration of the patent. The court reviewed the Second Circuit cases cited in Ellis' treatise, and disapproved them in view of the Supreme Court's language in *Scott* and the Third Circuit's own decision in *Shatterproof*. It concluded that the agreement was an attempt to extend the patent monopoly by the exaction of royalties after expiration, and, as such, was unenforceable.

Two years later, the decision and reasoning of the Third Circuit in *Ar-Tik* was expressly approved by the Supreme Court in *Brulotte v. Thys Co.*[27] So far as is here relevant, the facts in *Brulotte* were similar to those in *Ar-Tik*, except that the licensee's machine embodied seven licensed patents, not just one, and the licensor attempted to continue to collect a royalty after all seven had expired. Relying on both *Scott* and *Ar-Tik*, the Supreme Court held "that after expiration of the last of the patents incorporated in the machine 'the grant of the patent monopoly was spent', and that an attempt to project it in another term by continuation of the licensing agreement was unenforceable."[28]

The decisions in *Ar-Tik* and *Brulotte*, although they amount to direct repudiation of the earlier cases,

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[26]302 F.2d 496 (3d Cir. 1962).

[27]379 U.S. 29 (1964).

[28]*Id.* at 33

are easily understood. In both of them, royalty payment was continued past the expiration date of all the patents licensed, and the court, not unreasonably, found an attempt to extend the patent monopoly beyond its expiration. The decision in *Shatterproof*, in which the doctrine was first announced, is not so transparent. The license offered in *Shatterproof* included a considerable number of patents. It contained the frequently used provision that, unless earlier terminated, the license should remain in effect until the expiration of the last expiring patent. The vice found by the Third Circuit was not the continuation of royalty payments after all the licensed patents had expired, as it was in *Brulotte* and *Ar-Tik*, but the failure to reduce the royalty payment as the patents expired. This failure permitted the inference that some part of the identical continuing royalty was still being paid for the patents that had expired. Does *Shatterproof* mean that any package license which includes patents which expire during its term is a misuse, unless it provides for some reduction in royalty as the patents expire?

A negative answer to this question was given by the Tenth Circuit in *McCullough Tool Co. v. Well Surveys, Inc.*,[29] which we have already discussed in its package licensing aspects. In that case, as you will recall, the licensor exercised "salesmanship" to license the whole package, but was willing to, and in fact did, negotiate licenses on a reasonable basis under individual patents or groups of patents, if the licensee did not want the package. The licensor was therefore held not guilty of misuse. Most of the licenses it negotiated ran for

[29] 343 F.2d 381 (10th Cir. 1965), *cert. denied* 383 U.S. 933 (1966).

five years before the licensee had the right to terminate and, as is usually the case where a considerable package of patents is licensed, some important patents expired during the nonterminable period. In most of the license agreements there was no provision for reduction of royalty as patents expired, and the defendant contended that the patent owner was guilty of misuse under *Shatterproof*, *Ar-Tik*, and *Brulotte*.

The Tenth Circuit rejected this contention. It first noted that in *Automatic v. Hazeltine*,[30] in which the Supreme Court had indicated that voluntary package licensing was proper, many of the patents expired, without change in the royalty rate, during the nonterminable period of the license. It distinguished *Brulotte* and *Ar-Tik* because the license agreements in those cases "attempted to extend the period for paying royalties beyond the date of expiration of the last of the patents covered by the agreement."[31] It distinguished *Ar-Tik* and *Shatterproof* because the licensee was coerced into taking the license agreement offered "by virtue of the licensor's refusal to grant anything but a package license covering all the patents."[32] Its conclusion was that a "license agreement covering a package of patents, *voluntarily entered into by the parties*, [was not] unlawful by reason of the fact that the royalties payable thereunder are based upon a package of patents, some of which have expired or will expire during the effective period of the agreement."[33]

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[30] Automatic Radio Co. v. Hazeltine, 339 U.S. 827 (1950).

[31] 343 F.2d at 410.

[32] *Ibid.*

[33] *Id.* at 409 [Emphasis added].

If *McCullough* were the latest case, there would be a clear rule as to the legality of package licenses, in which some of the licensed patents expired during the nonterminable period of the license. Those entered into voluntarily and without coercion would be legal, while those resulting from coercive practices on the part of the licensor would constitute misuse.

Is there anything to the contrary in the recent decision of the Court of Appeals for the Sixth Circuit in *Rocform Corp. v. Acitelli-Standard*?[34]

In that case, the patent owner apparently had only one "important" patent, and it made no offer to license it on an individual basis. This patent covered the "Rocform System" of pouring concrete basement walls, and was to expire in 1967. The patent owner also had other patents, with later expiration dates, which had to be used in the system, but which the court did not characterize as important. It was Rocform's policy to license the use of the "Rocform System" for a flat payment for each basement cast. This payment was not to be reduced when the "important" patent expired, nor was the licensee given the right to terminate at that time. Apparently, the agreement provided no termination date, so that the payments would continue until the expiration of the last licensed patent.

Rocform had licensed 189 builders under this standard form of agreement, and offered it to Acitelli. Acitelli rejected it without comment. That is, it did not request a license under only the important patent, nor did it request a license under different terms. It commenced infringing operations, and, when sued for

[34] 367 F.2d 678 (6th Cir. 1966).

infringement of the important patent, it defended on grounds of misuse.

The Sixth Circuit held, with one judge dissenting, that Rocform was guilty of misuse, basically on the ground that it had grouped "one important patent (about to expire) . . . with others of longer duration for 'leverage.'"[35] It stated:

> "We believe such a contract, when it contains no diminution of licensing fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes, in effect, an effort to continue to collect royalties on an expired patent."[36]

In the course of its opinion, the court expressly approved a finding of the district court that Rocform had employed its important patent to "coerce (or attempt to coerce) this defendant to purchase the Rocform system, and thus to purchase other patents and unpatented materials and services."[37] On this assumption, there would seem to be no inconsistency between *Rocform* and *McCullough*.

However, the dissenting judge in *Rocform* makes the points that there was no basis in the record for any finding of coercion, that all Rocform had done was offer its regular form of contract to Acitelli, that Acitelli had refused it without suggesting any other, and that these facts did not amount to coercion.[38]

These indications that the majority could not have regarded a finding of coercion as necessary to its deci-

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[35] *Id.* at 681, 151 U.S.P.Q. at 308.

[36] *Ibid.*

[37] 367 F.2d at 680.

[38] *Id.* at 684.

sion are reinforced by some of the broad language in the majority opinion. It is certainly arguable that the majority regarded misuse as inherent to any license agreement that does not provide for some diminution in royalty, or for a right in the licensee to terminate, whenever any important licensed patent expires. We are therefore faced with the question—in the light of all the cases, including *Rocform*—of how we should deal with the expiring patent problem in drafting a license agreement.

My answer to this question is a conservative one. In some respects, it is different from what I would lay down as the law, if, as a judge, I had the opportunity to do so. As counselors, not judges, we must remember that the expired patent doctrine is in a very fluid state, and is liable to further judicial extension. With these apologies, my suggestions are as follows:

1. Obviously, a patent owner must make no license agreement—even though the licensee is willing to do so—under which the royalty for a single patent is payable beyond its expiration date, or under which the royalty for a group of patents is payable beyond the expiration date of the last patent.

2. Whenever a patent owner enters a license agreement in which one or more, but not all, of the patents will expire during the term of the license, special precautions are required.

The safest procedure, in my judgment, is to give the licensee, for a limited period after the expiration of any licensed patent that he uses, the right to terminate the license and the option, if he so desires, to take a license under any of the patents then remaining unexpired, at a reasonable, negotiated royalty.

This requires a little amplification. All that *Rocform* says, at the most, is that the licensee must be given either a decrease in royalty, or a right to terminate the agreement, on the expiration of an *important* patent. Why give him the right to terminate on expiration of *any* licensed patent that he uses? My answer is that, if the licensee is using a patent, we cannot be sure that a court will hold the patent to be "unimportant."

Why give the licensee, not only the right to terminate the agreement, but the option to take a new license on a reasonable basis under any unexpired patents he desires? The answer is that in *Shatterproof* the court indicated that a right to terminate, where no alternative license was available, would only aggravate the licensee's hardship, because, in order to avoid paying for the expired patent, he would be forced to give up his license under the patents he still needed.

Following is a provision I have frequently used:

"Licensee may terminate this agreement on the expiration of any patent licensed hereunder by giving written notice of termination to Licensor within 60 days prior to such termination. On receiving such notice, if Licensee so requests therein, Licensor shall negotiate with Licensee a nonexclusive license at a reasonable royalty rate under those patents licensed herein which are unexpired at the date of the termination, and under which Licensee then desires a license."

Would it be an acceptable alternative solution merely to exclude from the royalty base, as each licensed patent expires, operations that are covered only by that patent?

While this would not reduce the royalty rate when the patent expired, it would actually or potentially decrease the *base*. In my judgment, this alternative meets the test of *Rocform*, because it operates to reduce the royalty when the patent expires, and should be sufficient to avoid misuse. There is, however, a recent decision of the District Court for the Western District of Oklahoma,[89] which casts some doubt on this conclusion. It is now pending on appeal in the Tenth Circuit,[89a] and, until the issues in the appeal are resolved, I would be a little hesitant, in drafting a new license agreement, to rely merely on exclusion from the royalty base.

A further question is whether violation of the expired patent rule could be an antitrust violation, which might involve a treble damage liability, as well as a patent misuse. It seems to me that, whenever the desire of the applicant for a license under a particular patent is used as a lever to induce him to agree to continue to pay royalties—whether for that patent, or for other patents, or for unpatented services—after its expiration, there is a serious possibility of antitrust violation and treble damage liability. The decision of the Seventh Circuit in *Zenith*, in the field of mandatory package licensing, seems applicable.

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[89]Well Surveys, Inc v. Perfo-Log, —F. Supp.—, 154 U.S.P.Q. 313 (W.D. Okla. 1967).

[89a]The district court decision was reversed in Well Surveys, Inc. v. Perfo-Log, on June 4, 1968, —F.2d— (10th Cir. 1968).